JTH Tax, Inc. v. Whitaker
Doc. 1

FILED
APR 12 2007
CLERK, US DISTRICT COURT
NORFOLK, VA

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
NORFOLK DIVISION

JTH TAX, INC. d/b/a LIBERTY TAX SERVICE,

Plaintiff,

Civil No. 2:07cv170

v.

KENYA WHITAKER,

Defendant.

COMPLAINT

NOW COMES the Plaintiff, JTH Tax, Inc. d/b/a Liberty Tax Service, by counsel, and for its Complaint against the Defendant, Kenya Whitaker, states as follows:

The Parties

1. The Plaintiff, JTH Tax, Inc. d/b/a Liberty Tax Service ("Liberty") is a corporation duly organized and existing under the laws of the State of Delaware. Its corporate headquarters and principal place of business are at 1716 Corporate Landing Pkwy., Virginia Beach, Virginia 23454.

2. The Defendant, Kenya Whitaker ("Whitaker") previously owned and operated one Liberty Tax Service franchise which gave to Whitaker the right to operate a Liberty Tax Service office using Liberty's proprietary trademarks and methods in a specified territory in Texas. Exhibit 1 is a true and correct copy of the franchise agreement. Pursuant to the franchise agreement attached as Exhibit 1, Whitaker operated a Liberty Tax Service office for the franchise territory known as TX066 at 2661 Midway Road, Suite 213, Carrollton, Texas 75006.

Whitaker's last known home address is 3921 Dural Drive, Carrollton, Texas 75010.

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Whitaker is a citizen of the state of Texas.

Personal Jurisdiction

3. Personal jurisdiction over Whitaker exists in Virginia because in the process of purchasing and operating a Liberty Tax franchise, Whitaker had a substantial and continuing relationship with Liberty's headquarters in Virginia Beach, Virginia, including travel to Virginia to attend a one-week training class in Virginia Beach, and the submission of regular reports and other regular contact with Liberty in Virginia Beach, Virginia (see Burger King Corp. v. Rudzewicz, 471 U.S. 462 (1984)); and Whitaker's franchise agreement contains a forum selection clause consenting to jurisdiction in this Court. Exhibit 1, ¶15.b.

Subject Matter Jurisdiction

4. Subject matter jurisdiction is based upon (a) 28 U.S.C. § 1338(a), in that a portion of this claim is based upon federal trademark law; and (b) diversity of citizenship. The amount in controversy, excluding interest and costs, exceeds $75,000.

Venue

5. Venue is proper in this Court pursuant to 28 U.S.C. § 1391 because a substantial part of the events giving rise to this cause of action arose in Virginia Beach and because Whitaker's franchise agreement contains a forum selection clause consenting to venue in this Court. Ex. 1, ¶ 15.b.

Facts

6. On June 20, 2003, Whitaker submitted a Franchise Application to Liberty in which she indicated she had a net worth of $244,839 and was otherwise a sophisticated and experienced business person who owned other businesses. *See,* Exhibit 2.

7. On July 31, 2003, Whitaker purchased the Liberty franchise territory known as TX066. *See,* Exhibit 1.

8. In January 2004, Whitaker commenced operation of a Liberty Tax office within the territory TX066 located at 2661 Midway Road, Suite 213, Carrollton, Texas 75006. *See,* Knapp Decl.

9. In January 2007, Liberty noticed some irregularities in the processing of tax returns at Whitaker's Liberty office. *See,* Knapp Decl.

10. In particular, all the tax returns processed were paper returns, no tax returns had been electronically filed using Liberty's software, there was a drop in the number of returns prepared as compared to the prior year and the office had a low average net fee charged for tax preparation services. *See,* Knapp Decl.

11. Most oddly, Whitaker's husband admitted to Liberty's Area Developer Geoff Knapp that Whitaker "outsourced" the tax preparation operation to India. *See,* Knapp Decl.

12. Whitaker had also ceased use of Liberty's software and electronic filing services. *See,* Knapp Decl.

13. Following the discovery of these irregularities, Mr. Knapp visited Whitaker's office on February 5, 2007 in an effort to inspect Whitaker's customer tax preparation records as is permitted by Whitaker's franchise agreement. *See,* Ex. 1, ¶ 13.c. and Knapp Decl.

14. Upon arrival, Mr. Knapp met with Whitaker and explained that he was there to inspect the tax preparation records. *See,* Knapp Decl.

15. Whitaker refused to permit Mr. Knapp to inspect the records and said "I won't let you see my files." As such, Mr. Knapp left the office. *See,* Knapp Decl.

16. Upon leaving the office, Mr. Knapp waited a short time and then attempted to contact Whitaker via telephone in an effort to gain Whitaker's compliance with the franchise agreement and let Mr. Knapp inspect the files. *See,* Knapp Decl.

17. Whitaker again stated that she would not permit Mr. Knapp to inspect the files. *See,* Knapp Decl.

18. As a result of Whitaker's failure to use the software and electronic filing services provided to her, on February 6, 2007, Liberty sent a letter to Whitaker informing her that her Franchise Agreement had been terminated. *See,* Hughes Decl.

19. In spite of this termination, Whitaker has refused to abide by her post-termination duties. She has instead retained her client files, retained the Operations Manual which Liberty loaned to her, retained her former Liberty telephone number and refused to cease identification under Liberty's federally registered trademarks. *See,* Hughes Decl., Ross Decl. and Knapp Decl.

COUNT I
TRADEMARK INFRINGEMENT (15 U.S.C. § 1114 et seq.)

20. Liberty repeats and re-alleges paragraphs 1-19 as if fully set forth herein.

21. As is pertinent to this case, Liberty is the owner of the following federally registered trademarks:

* "Liberty Tax Service" and design - registration date August 21, 2001 (registration number 2,479,692). Ex. 3.

* "Liberty Tax Service" – registration date February 1, 2000 (registration number 2,314,991). Ex. 4.

* "Liberty Income Tax" – registration date June 12, 2001 (registration number 2,459,756). Ex. 5.

* "Liberty Tax" –registration date July 3, 2001 (registration number 2,465,670).

Ex. 6.

22. As a result of the termination of Whitaker's franchise agreement, Whitaker no longer has any rights to continue to use any of these marks.

23. Any continued use by Whitaker of marks owned by Liberty or ones confusingly similar constitutes infringement.

24. Nonetheless, Whitaker refuses to cease holding her business under Liberty's mark in violation of 15 U.S.C. §§ 1114 and 1125(a). *See,* Engstrom Decl. and Ross Decl.

25. Liberty has suffered damages, including irreparable harm, and will continue to suffer damages and irreparable harm as a result of such infringement, unless Whitaker is enjoined by this Court.

26. Pursuant to 15 U.S.C. § 1116 this Court has the power to enjoin such infringement.

27. Pursuant to 15 U.S.C. § 1117 the plaintiff is entitled to an award of all of its damages sustained as a result of the defendant's acts of infringement, the defendant's profits, and the costs of the action.

COUNT II
BREACH OF FRANCHISE AGREEMENT

28. The plaintiff repeats and re-alleges paragraphs 1-27 as if fully set forth herein.

29. Whitaker's failure to use Liberty's software and electronic filing services is a violation of the Franchise Agreement. Ex. 1, ¶¶ 6(g) and 8(b)(viii).

30. Whitaker's refusal to allow Liberty to inspect all business records is a violation of the Franchise Agreement. Ex. 1, ¶ 7(c).

31. Upon termination of Whitaker's Franchise Agreement with Liberty, Whitaker became subject to certain post-termination obligations to Liberty. Ex. 1, ¶¶ 9-10.

32. Whitaker has breached her post-termination obligations in at least the following ways:

(a) Refused to stop identifying herself as a Liberty franchisee and discontinue use of Liberty's marks. *See,* Hughes Decl., Ross Decl. and Engstrom Decl.;

(b) Failed to transfer to Liberty all telephone numbers used in her Liberty businesses, which would include (972) 248-7300; Hughes Decl., Knapp Decl. and Ross Decl.

(c) Failed to deliver to Liberty all copies of her customer lists. Hughes Decl. and Engstrom Decl.;

(d) Failed to deliver to Liberty all copies of her customer tax returns, files and records *Id.*;

(e) Failed to deliver to Liberty the copy of the Operations Manual which Liberty loaned to her. Hughes Decl.;

(f) Refused to adhere to the covenant not to compete and not to solicit contained in her franchise agreement. Hughes Decl. and Engstrom Decl.;

(g) Such other failures as may be the subject of further investigation and discovery and proof at trial.

33. Liberty has suffered damages, including irreparable harm (from the non-monetary breaches), and will continue to suffer damages and irreparable harm as a result of such breaches, unless Whitaker is enjoined from further breaches by this Court.

WHEREFORE, in consideration of the foregoing, the plaintiff Liberty Tax Service respectfully prays for the following relief:

1. That it be granted a judgment in its favor against Whitaker in the amount of $185,167.00;

2. That a permanent injunction, be granted compelling Whitaker and all her agents, employees and all other persons in active concert or participation with her to—

(a) discontinue further use of the marks "Liberty Income Tax," "Liberty Tax Service," and "Liberty Tax Service" and design, or any mark confusingly similar thereto;

(b) transfer to Liberty or its designee all rights to the telephone numbers (972) 248-7300 and any other telephone number previously used at Whitaker's franchise;

(c) deliver to Liberty all copies, including electronic copies, of lists and other sources of information containing the names of customers who patronized Whitaker's former Liberty Tax Service businesses;

(d) deliver to Liberty all customer tax returns, files, records and all copies thereof;

(e) deliver to Liberty its Operations Manual and all updates which Liberty loaned to Whitaker;

(f) through February 6, 2009 not directly or indirectly prepare or electronically file income tax returns, or offer Bank Products, within his former Liberty Territory or within 25 miles of the boundary of such Territories; and

(g) through February 6, 2009 not directly or indirectly, within the Liberty Territories or within 25 miles of the boundaries of such Territory, solicit the patronage of any person or entity served by Whitaker's prior Liberty offices during the time period February 6, 2006 through February 6, 2007 for the purpose of offering such person or entity tax preparation, electronic filing or Bank Products.

3. Award to Liberty its costs incurred in pursuing this action; and

4. Grant to Liberty such other and further relief as justice and the equities of the case may require.

JTH Tax, Inc. d/b/a Liberty Tax Service

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